

# COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

## COUNTYWIDE RISK ASSESSMENT REPORT FISCAL YEAR 2022-23



Audit Committee Submittal Date: 08/16/2022

## **EXECUTIVE SUMMARY**

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The development of the Countywide Risk Assessment report is a systematic process to evaluate, identify, and prioritize potential audits based on the current level of risk to the County. Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives and is measured in terms of impact and likelihood. The Department of Finance, Internal Audit Unit (IAU) sent out questionnaires to all County department heads and members of the Sacramento County Audit Committee requesting input for the risk assessment. IAU evaluated budget and financial information, number of full-time equivalent employees, department information to assess the risks, such as: key operations and organizational divisions/units; past internal and external audit reports; risk assessment questionnaire responses; grand jury report; prior, current, and pending County litigations.

The risk assessment will serve as a tool for IAU to focus resources to perform evaluation of controls in place, to provide assurance that risks are managed to acceptable levels, and to evaluate performance measures and their level of achievement. Also, the risk assessment is used in developing the Annual Audit Plan.



## County of Sacramento

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August 16, 2022

To: Sacramento County Audit Committee

From: Ben Lamera, Director of Finance

### **Sacramento County Risk Assessment Fiscal Year 2022-23**

The mission of the Internal Audit Unit (IAU) is to provide independent, objective assurance and accounting advisory services to assist the Board of Supervisors and County Management and add value and improve the County's operations by promoting integrity, accountability, compliance, and innovation.

IAU is responsible for the internal audit functions of Sacramento County. IAU developed the Countywide Risk Assessment as a tool to evaluate risk and prioritize resources for its audit activities. A risk assessment is a systematic process to evaluate, identify, and prioritize potential audits based on the current level of risk to the County. Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives and is measured in terms of impact and likelihood.

### **Risk Assessment Development Process**

California Government Code Section 1236 states that, *"all city, county, and district employees that conduct audits or that conduct audit activities of those respective agencies shall conduct their work under the general and specified standards prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate."* These standards encourage audit departments to establish a risk-based approach to determine the priorities for audit activities.

IAU applied the IIA Standard as a guidance to conduct the risk assessment as documented below.

### **Step 1: Identify Risks**

Gather and review below information from departments:

- Budget and financial information
- Number of full-time equivalent (FTE) employees

- Department information - key operations and organizational divisions/units
- Risk assessment questionnaire responses
- Cash management questionnaire responses
- Prior, current, and pending County litigations
- Past internal/external audit and Grand Jury report findings
- Time since last audit

IAU developed general risk assessment questionnaires that were sent to department heads and the Audit Committee to obtain input and insight for the risk assessment study. The questionnaire responses were analyzed and included in our risk assessment model.

Risk assessment questionnaires assessed risk factors as follows:

1. Significant organizational changes
2. Significant changes to business processes, systems or internal controls
3. Impact of budget or staff reductions
4. Complexity and volume of regulations for the department's operation
5. Significant changes to key information technology (IT) systems, applications, or the computer environment
6. Known fraud, losses, or misappropriations of County assets
7. Job hazard analysis as a tool to reduce risk of injury to workers
8. Significant risks, weaknesses, or unintended consequences of changes as a result of COVID-19

IAU also developed cash management questionnaires. These questionnaires were sent to departments to gather information related to cash handling for each department, if relevant. The questionnaire mainly assessed risk factors related to internal controls for cash handling.

## **Step 2: Evaluate Risks**

IAU applied a method of systematically scoring departments based on risks identified through reviewing information gathered on departments listed above and in consideration of inherent risks of business function for each departments. Documented below is the process used to evaluate risks for this study.

### **Review of Budget, FTE, and Financial Information**

IAU performed analysis of budget to actual expenditures for the last two fiscal years and noted revenue/expenditure variances from budget for each department. Based on the variance amount, a risk score was assigned to that department. Data used for our analysis were taken from the County's approved budget documents and County's Financial System (a.k.a. COMPASS) for Fiscal Year (FY) 2019-20 and FY 2020-21.

Also analyzed were the number of actual and budgeted FTE employees for the last two fiscal years. IAU noted variances for each department and assigned a risk score based on percent change.

Each department also received a risk score for the total expenditure amount and number of FTE for the department in FY 2020-21.

## **Review of Reports, Risk Assessment Questionnaires, and Other Documents**

### **Past Internal and External Audit Reports**

IAU reviewed all internal and external audit reports for departments for the past two years and assigned a risk score based on number of findings, status of recommendations, financial impact, significance to internal controls and compliances. In addition, departments received a higher risk score if they have not been audited in the past two years.

### **Grand Jury Report**

IAU reviewed grand jury reports for the past two years and evaluated risk level for departments based on findings on the report. Risk level was determined based on evaluation of political, social, and legal or compliance factors surrounding the findings as well as status of recommendations.

### **General Risk Assessment Questionnaire**

The questionnaire included questions that IAU used to score the risk categories of directional changes, IT complexity, and business/operational environment. IAU assigned a risk score based on the responses provided by departments and the Audit Committee.

### **Cash Management Questionnaire**

Each department received a risk score based on their responses to the identified risk factors, such as dollar amount from daily cash receipts, use of external accounts, petty cash, internal control policy, and reconciliations.

### **County's Litigation**

IAU reviewed County's prior, current, and pending litigations (indemnity reserve greater than \$50,000) and the total cost incurred as of April 30, 2020 and 2022. IAU considered total costs incurred as well as total cost change over time. Risk scores were assigned to the departments with cost and percent change.

The risk factors identified above were incorporated into a score for each risk category of our risk assessment model. Each risk category was assigned a weight factor based on their respective probability and impact. IAU ranked the department using a scale of Low, Medium, or High based on the final risk score calculated using the risk categories below.

Risk categories and weight factors for risk assessment model:

- Financial Significance (30%)
- Directional Change (10%)
- IT Complexity (15%)
- Other Categories:
  - o Business/Operational Environment and Other Risks (10%)
  - o Cash Management (10%)
  - o Litigations (10%)
  - o Audits (Internal/External and Grand Jury Findings; Time Since Last Audits) (15%)

**Step 3: Rank Identified Risks**

**Table 1**

Department	Risk Rating	
Human Assistance	High	1
Sheriff	High	1
Airports	High	1
Child, Family, and Adult Services	High	1
Finance	High	1
General Services	High	1
Water Resources	High	1
Community Development	Medium High	2
Health Services	Medium High	2
Regional Parks	Medium High	2
Technology	Medium High	2
Waste Management and Recycling	Medium High	2
Transportation	Medium	2
Clerk of the Board	Medium	2
Personnel Services	Medium	2
Child Support Services	Medium	2
Probation	Medium	2
Environmental Management	Medium Low	2
Voter Registration and Elections	Medium Low	2
Economic Development	Medium Low	2
District Attorney	Medium Low	2
County Clerk/Recorder	Medium Low	2
Animal Care and Regulation	Medium Low	2
Assessor	Medium Low	2
Emergency Services	Medium Low	2
Conflict Criminal Defenders	Low	2
County Counsel	Low	2
Agricultural Commission / Weights and Measures	Low	2
Coroner	Low	2
Public Defender	Low	2

1. Departments included in ATT 1 – *Proposed Audits based on FY 2022-23 Risk Assessment.*
2. Departments not included in FY 2022-23 Audit Plan due to lower risk ranking and will be considered for future Audit Plan based on available audit resources.

**Step 4: Establish Audit Plan**

- Identify audit focus on high risk areas
- Establish audit plan
- Present audit plan to the Audit Committee
- Adjust plan, as necessary, in response to changes in the organization's business, risks, operations, programs, system, and controls

See ATT 1 – *Proposed Audits based on FY 2022-23 Risk Assessment.*

**County of Sacramento**  
**Department of Finance, Auditor-Controller Division, Internal Audit Unit**  
**Proposed Audits Based on FY 2022-23 Risk Assessment**

Risk Rating	Department	Potential Risk Factors	Audit Type and Objectives	Estimated Hours (Range)
High	Human Assistance	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Prior Audit Findings	<b>Internal Control Review - Contractor Selection and Monitoring Process:</b> To review Human Assistance's the processes in selection and monitoring of its contractors including Request for Proposal process, contract languages, and other monitoring processes and tools and evaluate adequacy of internal controls over selection and monitoring of its contractors.	250-300
High	Sheriff	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Prior Audit Findings	<b>Internal Control Review - Capital Assets Control:</b> To review Sheriff's inventory management process and evaluate adequacy of internal controls over Capital Assets management.	125-175
High	Airports	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Prior Audit Findings	<b>Internal Control Review - Contractor Billing and Revenue Reconciliations:</b> To review Airports' contractor billing and revenue reconciliation process and evaluate the adequacy of internal controls over revenue reconciliations and reporting.	175-200
High	Child, Family, and Adult Services	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Time Since Last Audit	<b>Compliance Review - Public Administrator/Guardian/Conservator:</b> To review Child, Family & Adult Services' Public Administrator/Guardian/Conservator program for compliance with applicable laws and regulations.	200-275
High	Finance	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management,	<b>Internal Control/System Review - Payment Services Process:</b> To review Finance's payment services procedures and evaluate adequacy of its internal/system controls.	200-250
High	General Services	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Prior Audit Findings	<b>Internal Control Review - Procurement Card Management:</b> To review General Services' Procurement Card Management and evaluate adequacy of internal controls over its Procurement Card Management to ensure user authorization for all Procurement Card users are properly documented and Procurement cancellations are timely processed.	75-100
High	Water Resources	Financial Significance, Directional Changes, IT Complexity, Business/Operational Environment and Other Risks, Cash Management, Litigations, and Prior Audit Findings	<b>Internal Control Review - Customer Billing and Revenue Reconciliations:</b> To review Water Resources' customer billing and revenue reconciliation process and evaluate the adequacy of internal controls over revenue reconciliations and reporting.	175-200
<b>Total Estimated Hours</b>				<b>1,200-1,500</b>